Vodacom Group Limited
Trading update for the quarter ended 30 June 2024

Shameel Joosub
Good afternoon and good morning to those joining the call from the US, I am joined by our group CFO Raisibe Morathi, as well as our head of Investor Relations JP Davids.

During the first quarter we officially celebrated Vodacom's 30th birthday, having signed up our first customer on the first of June 1994, when we switched on our network in South Africa. Three decades later, the Vodacom group serves more than 200 million customers across the DRC, Ethiopia, Egypt, Kenya, Lesotho, Mozambique, South Africa and Tanzania. A footprint that covers more than half a billion people and is almost 12 times greater than when we launched.

The impact of this geographical diversification was evident in our trading update for the quarter. Egypt delivered growth well above the rate of inflation with normalised group service revenue of 10% tracking above our medium-term target. Service revenue growth was also supported by our product diversification, as the contribution of Beyond Mobile services increased to 21% of group service revenue.

Our Tech for goods solutions, which combine our mobile and Beyond Mobile services helped us generate growth but also drive societal benefit. We have developed solutions across critical verticals, including agriculture, education, energy and healthcare. The wide-ranging impact of these solutions are set out in our recently published ESG report.

In Healthcare our solutions include our stock visibility services in South Africa, M-mama for maternal and neonatal emergencies in Tanzania and in Lesotho digitalising the healthcare system in Egypt. The universal health insurance project in Egypt already serves more than 6 million people and provides a Tech for Good blueprint that we now want to replicate across our markets. In the quarter, we partnered with Egypt Air to implement the pioneering remote monitoring solution that will transmit passengers vital signs from aircrafts to medical personnel at hospitals in real time in case of medical emergencies.

From a mergers and acquisition perspective, our proposed acquisition of a joint control stake in South African fibre operater Maziv is currently before the Competition Tribunal for consideration. We have presented a strong case to the tribunal on the merits of the transaction, including how it will accelerate fibre reach in South Africa, fostering economic development and helping bridge the digital divide. The final court dates are scheduled for the end of September, it will be then up to the tribunal to make a final decision.

To deliver on an investment case of attractive and sustainable shareholder returns, we are focused on converting our revenue momentum into earnings and dividend growth. The devaluation of the Egyptian pound in March 2024 is a headwind for our translated rand growth, but already impacted earnings in the second half of the prior year. Pleasingly, our Egyptian businesses is delivering accelerating revenue growth in both nominal and real terms. We also implementing measures to drive operational leverage to support Rand based earnings growth in FY 2025. We aim to evidence this focus through the course of the year.

Switching back to our trading update for the first quarter, we believe it was a good result.
At the group level, the revenue of 36.2 billion rand was up 1.5% despite the Egyptian Pound devaluation. On a normalised basis and equivalent to constant currency measure, group service revenue increased 10%. This compares favorably to our target of high single digit growth over the medium term.

At a product level, Beyond Mobile which we had previously referred to as new services reach 20.8% of group service revenue. Beyond Mobile includes fixed IoT digital and financial services, and we target a 25 to 30% contribution in the medium term. Financial Services is key to our growth ambitions, and the largest component of Beyond Mobile. We remain Africa's leading FinTech operator with 400 billion US dollars of transactions, processed over our mobile money platforms over the last 12 months, including Safaricom. Our financial service business was up 8.7% or 16.8% on the normalised basis, and made up 11.3% of group service revenue. The scaling of this business is important to our earnings and returns outlook given the lower capital intensity of financial services.

Shifting focus to South Africa, services revenue grew 1.8% to 15.3 billion Rand, as an improved performance in the prepaid segment was partially offset by pressure in wholesale revenue. In addition to prepaid, we delivered good growth in consumer contract, financial services and Vodacom Business excluding wholesale. Mobile prepaid revenue grew 3.5% supported by pricing adjustments implemented during the month of May. The price adjustments were implemented on a ‘more for more’ basis, which lowers the effective price per megabyte of data and supports data affordability. Pleasingly, the prepaid growth rate improved through the quarter after the pricing adjustments. Wholesale was a key pressure point in the quarter and will be a key focus area for us to manage through FY 2025. As we progress through the year, we expect that the price adjustments in prepaid and postpaid, together with the growth in Beyond Mobile will mitigate the impact of the pressure in wholesale.

Now moving on to Egypt. Egypt delivered another excellent performance. Service revenue in local currency was up 43.7% well above inflation accelerated from the fourth quarter growth of 40.6%. The result was broad base with strong growth in consumer mobile and fixed, business and Vodafone cash. Vodafone cash revenue grew 87% to 1.1 billion Egyptian Pounds and increased its contribution to 7% of Egypt's service revenue. In Rand terms, revenue was 7 billion and declined just 1.5% despite the material impact of the Egyptian Pound devaluation. In local currency, revenue growth was 52.5% supported by fee income on the Vodafone cash deposits. This fee income is earned at a higher gross margin, supportive of operational leverage.

Now moving on to our International business, our International business reported service revenue growth of 7.4 billion rand up 2.3%. Rand growth was impacted by weaker Tanzanian shilling. Normalised service revenue growth was 5.7% with excellent growth in Lesotho, Tanzania and DRC offset by Mozambique. Tanzania grew 20% in shillings, while the DRC was up 8.6% in US dollars. Both markets reported strong growth in data and M-Pesa revenue. In Mozambique, the price floors implemented in May were suspended by the regulator in June. While our market positioning is now more competitive in Mozambique, we are dynamically reallocating capex to Tanzania and DRC to fuel the growth in these markets.

Our fourth business segment and important earnings growth is our associate Safaricom. The results for the Safaricom group are disclosed on a bi-annual basis and therefore not included in the quarterly update. However, we did provide a short KPI update on Ethiopia.

By the end of the quarter, total sites reached 2 900, while customers increased to 4.6 million from 2.7 million a year ago. As reminders Safaricom has also provided FY2025 EBIT guidance for its overall business, Kenya and Ethiopia. The midpoint of guidance for the overall business implies 12% EBIT growth reflecting another year of good growth in Kenya, and a peak of losses in Ethiopia. This guidance, provides a more constructive outlook for our associate income in FY2025 compared with FY2024.

That concludes my review, Raisibe and I are now ready to answer any questions you may have.

JP Davids
Great, thanks, Shameel. This is JP Davids from Investor Relations at Vodacom. On the webcast, there is a facility to post your questions, a number have already come through, so I'll be working through those. There are a number of overlapping questions, so I'll try to bucket them.

The first few questions come from Rohit at Citi and a couple of his questions to get us going, starting with the prepaid environment. So, can we talk a little bit about what we're seeing from a competitive environment within prepaid? And then just I guess a little bit tying into Preshendran’s question from Nedbank, a little bit of colour around what we are seeing post these price ups in terms of the trends in prepaid. And if we got any colour on the voice revenue trends in South Africa, so maybe just sort of an overview of how things have landed in the prepaid segment.

Shameel Joosub

Sure, so firstly, from a competitive environment perspective, let's start there. Telkom put up prices late last year, very quietly, but they put they put prices up. Secondly, we then put our prices up an average of between I would say 5 to 7%, both in postpaid and prepaid. Postpaid prices took effect from first of April, the prepaid prices took effect from I would say, towards the middle or end of May. So, essentially what you saw is that MTN also changed, they've also done price ups, and Cell C honestly, nothing really. So what you've seen, and I think they're more in the optimizing a part and still losing some share.

So if we look at market shares, for the year ended March 2024, we gained 0.2pp, MTN gained 0.2pp, Telkom gained point just over I think 0.7pp, and Cell C lost about 1pp, on our estimates. So you're seeing growth from all the different players. Remember that pricing strategy has been a more for more part which essentially brings down the effective rate. So, if you had a gig of data, you increasing it to 1.2GB, and you're putting up the price slightly. So that as you increase the price by 5%, and you're getting maybe 10% more value. So that was the premise that we did both on postpaid and prepaid, and, and that's worked pretty well for us.

So, you know, in terms of effects, as we put the price through on prepaid, we seeing that the momentum will carry through the year. And so we are much happier with the outlook for the prepaid performance. In terms of voice, voice has declined to 1.5% negative. So in this quarter, you had a 1.5% decline in voice versus a 5.5% in Q4 last year, then you've seen an acceleration of data when data is up 9% in terms of revenue. So, there is a positive trend, I would say on prepaid for the year. And we've only really seen the price ups towards the end of the quarter. So we should have, a little bit more momentum through the year.

JP Davids

Okay. Maybe just changing gear a little bit to pick up on a question from Jonathan from Prescient. He wanted to talk a little bit about the South African postpaid revenue trajectory, which is, as you know, around three and a bit percent at the moment as to whether we can see this accelerate towards 5%. And tying in to Jono’s question from Absa around Vodacom Business drag, any signs it’s starting to ease or does it remain a pressure throughout FY25?

Shameel Joosub

Yeah, so, that's kind of dragged the numbers a little bit because I think the consumer part is quite strong. The business side has been, you know, a bit better than flattish. So, we do see that, that improves through the year. So, yes, there is potential.

JP Davids
Okay. Then, a separate question from Jono, but also Pradyumna from HSBC. They wanted to get a little bit more colour on the CIVH deal or the Maziv deal, which we touched on in the intro remarks. So, how confident are we to have a favorable result? And then related to that question, you know, if the deal is blocked, is there a plan B for us?

Shameel Joosub
We've had a chance to present our case, both as CIVH and Vodacom. I think we presented a very strong case. I think, we produced all the rationale for the transaction and we negated the concerns around fibre versus fixed wireless, and put a strong case forward that's actually complementary and they're not in competition. And that fixed wireless will never be able to really compete full on with fibre. So, and, of course, the pro comparative parts of the deal at the tribunal, are that the DTI was there. They also had a chance to question us as specifically on the commitments that the parties have made in terms of the pro comparative benefits to the consumers, including the capital investment of 10 billion rand, with 1 million rural homes passed, including, the investment into local supply development and so on, and so on, so, a whole list of different things.

So that's the one part I think, also, initially, when the hearing started, you had a Rain and MTN who asked to be intervenors. Rain then came out strongly in support of the deal. And MTN at the end of last week, also came out in support of the deal. So essentially, now we're in a position and that's, of course, public. So where we are right now, is, there's still some further hearings, that will happen towards the end of August to September and then because they still some expert witnesses that they have to have to still present. And, yes, then by end of September, the hearings will be wrapped up and shortly after that there's a time period in which the tribunal needs to make a decision.

So we think we put a very good case forward, and the benefits of the deal are good for South Africa. Honestly, let's see we don't want to get ahead of ourselves but I think we have put a strong case forward.

JP Davids
Okay. Then across a few of the different analysts, there's a question on Mozambique. What is the outlook there, and any chance of the price floor being reinstated? And more broadly, what is the outlook for that market?

Shameel Joosub
So, there was a clear recognition by the authorities that there was a problem. I think that's the starting point. What then happened was that the price increase was probably too big in one shot. It should have probably been phased in. You know, but that's how the regulator chose to do it was essentially to put it in. That created a bit of noise in the market and given the noise that happened in the South African environment around elections, I think it created a little bit of sensitivity and so on. So essentially, you know, it was removed, with the comment that you can come back and talk to us after elections.

What it has done though is, honestly, it's a pity because we started to see the light at the end of the tunnel and I think both operators were seeing the benefit of it. What has happened is there has been some market repair in that unlimited offers from Movitel they've not put back. So, we now completely competitive in terms of pricing. So we are, at the same price or within a 5% difference between us and competition, so yeah, we've taken it, we've repriced it, we've also done a lot in terms of cost management and re-doing the cost, and running the business with a light amount of staff and so on. We've done the first full pool of costs, we still busy with the next pool of costs. So that we can try and improve margins on a lower price. Of course, it doesn't happen overnight but essentially that's the trajectory that we on but we more competitive now and we more competitive on M-Pesa as well. But we're going to have to take some of the pain as we, remember we've already repriced, so a lot of the pains already been taken but we're seeing through this next part and it's starting to turn slowly.

JP Davids
And then switching to Egypt and then we're going to come back to South Africa for a few questions. On Egypt, there's a recognition that you've had great growth in data traffic despite the 15% increase. Any further scope for price ups or any further pricing actions we could expect out of that market?

Shameel Joosub
I think what we're trying to do is to try and institutionalise some kind of price changes, but in Egypt these things don't happen overnight. So, we are still busy with talks and are pushing for further price ups, early days still, and of course, we don't like to count our chickens before they hatch. But I think what's really encouraging is that you've got broad based growth. So, you've got strong growth all around, you got strong growth in enterprise, you've got strong growth in consumer, you've got strong growth in Data, your financial services is growing 87%, so you're really on a nice trajectory and so you've got strong customer growth. All cylinders of the business is firing, so to speak.

JP Davids
Okay, maybe coming back to South Africa. A question for you Raisibe. Jono from Absa. Just on the please call me case. His specific question is: if leave to appeal the Con-court is denied, the

Constitutional Court, is the default outcome then in line with the majority judgment, which has been quoted as a range of starting at 29 billion rand.

Raisibe Morathi

Hi Jono. So, it is a bit more complex than that, because the SCA judgment had some variations where as an example, they said, between five and seven and a half percent and they also quote two types of interests that can be applied. So therefore, to execute on that judgment, there still needs to be a legal process, which could also be determined, which needs to be determined by a court to be more precise. So therefore, was the range of numbers point to anything between 29 billion and 63 billion, but there will still need to be another court step.

JP Davids

Okay. Shameel, coming back to you and in South Africa. Jonathan from Prescient and Rohit from Citi, are asking about the changes in government. We've obviously got a new telecommunications minister, have we had any interactions with the new minister? And if so, should we expect any significant regulatory changes either positive or negative?

Shameel Joosub

I think the engagements thus far have been positive in terms of, outlook and of course, trying to deliver, basically, broadband and connectivity and so on. So all the all the right noises or the right voice overs, we are having more detailed engagements with the minister in the weeks to come. So, having just given him some time to get his feet under the table, so to speak. The overtures thus far are all positive, so there's nothing negative, let me put it that way, that that's coming out.

JP Davids

Okay. And then I think we did a good job talking through the enterprise trends, but maybe just for completeness, just to cover off wholesale. We did allude to pressure there, and it's Nadim from Standard Bank in particular is asking some questions around the wholesale trajectory for the rest of the year, is at what point you start lapping this weakness? And then he's got a separate modeling question, which I'll take.

He asks if we are expecting any further deletions of inactive customers in our next quarter for South Africa? No, nothing material. I guess the slightly more detailed answer is that that we constantly deleting inactive customers, because there's a subscriber rule in place. But I wouldn't suspect you would see anything material in terms of the subscriber numbers going forward. Shameel, maybe back to you on the on the wholesale side?

Shameel Joosub

So basically, we've had a repricing on Cell C and signing a new term agreement with Cell C. And so that's one and then also an extension of the current agreement or short-term extension, we're still busy negotiating on a long term agreement with Telkom. But we've both given ourselves some time to, to be able to, to achieve that. So some of it is the repricing on Telkom, and some of it is the pricing on Cell C. And that has impacted us at about a 50 million rand a month, which we trying to offset and that's why we've been deliberate on prepaid and postpaid and also Beyond Mobile, to make sure that we can we know there's this pressure, and that we kind of making sure that we can compensate on the other lines.

JP Davids

Okay, then perhaps a couple of easier modeling questions I can quickly take from Rohit and Preshendran and the first one around, non-service revenue growth sequentially slowing a little bit from quarter to quarter. As you guys know, there are a few lines in there. One of them being the Rain agreement and I guess one of the messages we've consistently add on Rain as we would look to manage the EBITDA impact. So whatever the revenue trend is, you know, you'd see an offset in the cost side. So that remains a focus for us.

Then there was a question on the airtime advance, the level of airtime advanced in the quarter. Yeah, that's, as you know, was getting close to around 50%. So, a fraction higher than in prior quarters. But I think the key point on airtime advance is, it is closely linked to the prepaid results. So, we did see an improvement in prepaid results and an improvement in airtime advance result with that, with the overall South African financial service business doing nicely at 8.9%.

Shameel, a question then to you from David at New Street Research. He wanted a comment on financial services growth, but especially on International, which seems like it has had a bit of a slowdown quarter on quarter.

Shameel Joosub

We have a little bit of a slowdown and that's all related to Mozambique. What we've had to do in Mozambique is reprice P2P to stay competitive. And because of the competition that we starting to see the growth come back. But there is a P2P reduction, that has come through Mozambique, and that's dampened the results, you still got very strong growth across all the markets on financial services besides Mozambique.

JP Davids

A follow up question from Maddy from HSBC on South African voice revenue and he picked up obviously a reasonably modest decline in the quarter and just asking, is that a signal that it's maybe bottomed out here? Would you agree?

Shameel Joosub
I think what we're doing is trying to make sure that we can bottom it out, which is essentially creating, more attractive voice offers using our CVM engines. So, you know, trying to manage the voice decline, I think across the group last year, that was probably, you know, one of our big issues. And I think across many of the markets now, with the actions and the deliberate actions we've taken, we are seeing improvement invoice treads. So that's been really good.

JP Davids
Perhaps a question for you Raisibe from Maddy, just looking at our Capex run rate for the first quarter looks a little bit softer across the board, would we expect it to ramp up in later quarters? And then a question for you Shameel on any plans to monetize our mobile money, businesses at some point in time?

Raisibe Morathi
Yes, it will normalize to the capex guidance that we have given so we will still be able to deliver within that. And the decision around, phasing of capex, sometimes we take advantage of the exchange rates, but obviously, as you know, South Africa as an example, the Rand was quite depressed at the beginning of the quarter. And also, it depends on you know, the phasing in the prior year. But we expect that we'll still deliver capex within that envelope that we guided on.

JP Davids
And then Shameel, to you on the question around, potentially spinning off or selling off parts of the mobile many businesses?

Shameel Joosub
I think we've created optionality for ourselves. But I don't think we there yet. I think we're watching the space to be frank, and seeing, you know, what's happening with our competitors? And is there any real sustainable benefit that comes from this? Buying, you know, getting a small once of benefit? That we don't, we don't see as attractive to us. So, unless there's a real benefit in terms of rerating of share prices, and so on. We don't really want to create more complexity for ourselves. And it's probably one of our most profitable businesses. So we rather keep it there.

JP Davids

Okay, that is the end of the questions I have in front of me. And I guess I'll just hand over to Shameel for a closing sentence or two.

Shameel Joosub

Thank you for joining us on today's call. If there are any other questions that you might have, please reach out to the Vodacom investor relations team, we'll see you on the road shows, breakfasts, lunches and so on. Enjoy the rest of the day. Thank you.